

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

200 W. Washington, Suite 301
Indianapolis, IN 46204
(317) 233-0696
<http://www.in.gov/legislative>

FISCAL IMPACT STATEMENT

LS 6470

BILL NUMBER: SB 133

NOTE PREPARED: Feb 11, 2008

BILL AMENDED: Jan 24, 2008

SUBJECT: PERF COLA and Thirteenth Check.

FIRST AUTHOR: Sen. Meeks

FIRST SPONSOR: Rep. Klinker

BILL STATUS: CR Adopted - 2nd House

FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill provides for a cost-of-living adjustment (COLA) for a retired member of the Public Employees' Retirement Fund (PERF) (or a survivor or beneficiary of a member).

The bill provides that the pension portion of the monthly benefit payable to a retired PERF member, excluding elected officials, may not be less than \$180.

The bill also provides for a thirteenth check based on the complete years of service credited to a member at retirement.

The bill also repeals the current provision requiring the monthly benefit payable to a retired PERF member to be at least \$180.

This bill allows a member or beneficiary of PERF to assign a benefit payment to pay insurance premiums to an association that proves to the PERF Board's satisfaction that the association has as members at least 20% of the retired members of PERF.

Effective Date: July 1, 2008; January 1, 2009.

Explanation of State Expenditures: [Note: All estimates for the state impact include, in addition to the cost associated with PERF members, the cost of increases associated with the Excise Police and Conservation Officers' Retirement Plan and the Legislators' Defined Benefit Plan, which are statutorily linked to any COLA increases provided to PERF recipients. The portion of the liability and costs associated with the two smaller retirement plans is very small compared to the PERF impact.]

Summary of State Fiscal Impact for PERF COLA: The bill provides a 2% and a 2.5 % COLA payable after December 31, 2008. The 2% COLA is for members who retired after December 31, 1999, and the 2.5 % COLA is for members who retired before January 1, 2000. Current statute has no provision for a COLA in 2008. Consequently, the fiscal impact of the 2009 adjustment provided in this bill, over what is in current statute, is estimated to result in an additional unfunded accrued liability of \$33.796 M. This represents an additional annual funding requirement of about \$1.338 M for FY 2009 and \$2.675 M in fiscal years thereafter, representing approximately a 0.17% increase in annual funding as a percent of payroll).

Summary of State Budget Impact for PERF COLA: Although a COLA for 2009 is not provided in current statute, PERF is currently calculating the contribution requirement for the state in anticipation of passage of a 1.5% COLA for CY 2009. Consequently, the budgetary impact from the 2009 adjustment provided in this bill under the COLA assumptions used in the actuarial calculations is estimated to result in an additional unfunded accrued liability of \$11.296 M. This represents an additional cost of about \$0.438 M in FY 2009, and \$0.875 M in years thereafter, representing approximately 0.06 % of payroll.

Summary of Fiscal Impact of 13th Check Provision: This bill also provides for a 13th check to be paid on or before December 1, 2008, to any member (or survivor or beneficiary) who retired before January 1, 2008, and was entitled to receive a monthly benefit on November 1, 2008. The amount shall be equal to \$50 if the retired member had at least 5 years of service but less than 10 years (only in the case of a member receiving disability retirement benefits), \$100 for at least 10 years of service but less than 20 years, \$175 for at least 20 years of service but less than 30 years, and \$225 for at least 30 years. The amount is to be paid in a single check and is not an increase in the pension portion of the monthly benefit.

The estimated increase in unfunded accrued liability for FY 2009 is \$4.1 M due to the 13th check provision. The increase in annual funding required is \$313,000, representing 0.02% of payroll. This impact is in addition to the state fiscal impact for the COLA described above and is paid from general assets of the pension fund.

There will be an administrative cost to PERF to accomplish the payment of 13th checks based on years of service rather than based on monthly payments.

Summary of Fiscal Impact of \$180 Monthly Minimum: The bill also provides that a minimum monthly benefit of \$180 to a retired PERF member with at least ten years of creditable service. The increases are based on the date of the member's latest retirement or disability and does not apply to benefits payable in a lump sum and are in addition to any other increases provided by law.

The estimated increase in unfunded accrued liability for FY 2009 is \$7.2 M due to the \$180 monthly minimum provision. The increase in annual funding required \$550,000, representing 0.04% of payroll. This is in addition to the state fiscal impact for the COLA and 13th Check described above.

All estimates are based on the July 1, 2007, actuarial valuations. The state General Fund contributes about 55% and various dedicated funds contribute approximately 45% of the personal services expenditures of the state budget.

(Revised) Allowing a member or beneficiary of PERF to assign a benefit payment to pay insurance premiums will have no fiscal impact as this is consistent with current practice.

Explanation of State Revenues:

Explanation of Local Expenditures: *Summary of Local Fiscal Impact of PERF COLA:* The bill provides a 2.0% COLA for members, survivors, and beneficiaries of PERF payable after December 31, 2008. Current statute has no provision for a COLA in CY 2009. Consequently, the fiscal impact of the 2009 adjustment provided in this bill, over what is in current statute, is estimated to result in an additional unfunded accrued liability of \$45.1 M. This would result in an additional annual funding requirement of about \$3.45 M in CY 2009 and years thereafter (representing approximately 0.13 % of payroll) over what is provided for in current statute.

Summary of Local Budget Impact of PERF COLA: Although a COLA for 2009 is not provided in current statute, future PERF funding requirements are currently calculated in anticipation of passage of a 1.5% COLA for CY 2009. Consequently, the budgetary impact from the 2009 adjustment provided in this bill over the COLA assumptions used in the actuarial calculations is estimated to result in an additional unfunded accrued liability of \$15.0 M. This represents an additional annual cost of \$1.150 M in CY 2009 and years thereafter (representing approximately 0.04% of payroll).

Summary of Fiscal Impact of 13th Check Provision: The 13th Check provision results in an estimated increase in unfunded accrued liability for CY 2009 of \$5.4 M. The increase in annual funding required is \$421,000, representing 0.02% of payroll. This impact is in addition to the fiscal impact to local units for the COLA described above.

Summary of Fiscal Impact of \$180 Monthly Minimum: The estimated increase in unfunded accrued liability for CY 2009 is \$9.6 M due to the \$180 monthly minimum provision. The increase in annual funding required \$740,000, representing 0.03% of payroll. This is in addition to the state fiscal impact for the COLA and 13th Check described above.

Explanation of Local Revenues:

State Agencies Affected: All.

Local Agencies Affected: Units with members in the Public Employees' Retirement Fund.

Information Sources: Doug Todd of McCready & Keane, Inc., actuaries for PERF, 317-576-1508; Phil Conklin, Retired Indiana Public Employees Association.

Fiscal Analyst: James Sperlik, 317-232-9866.

DEFINITIONS

Cost-of-Living Adjustment - An across-the-board increase (or decrease) in wages or pension benefits according to the rise (or fall) in the cost of living as measured by some index, often the Consumer Price Index (CPI).

Funding - A systematic program under which assets are set aside in amounts and at times approximately coincident with the accruing of benefit rights under a retirement system.

Present Value— The present value (sometimes called actuarial present value) of an amount or series of amounts payable or receivable in the future is their current worth after discounting each such amount at an assumed rate of interest and adjusting for the probability of its payment or receipt.

Unfunded Actuarial Liability -The actuarial liability, sometimes called the unfunded liability, of a retirement system at any time is the excess of its actuarial liability at that time over the value of its cash and investments.